

Downtown Bay City Management Board
Bay City, Michigan

Financial Statements
For the Year Ended June 30, 2008



DOWNTOWN BAY CITY MANAGEMENT BOARD

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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INDEPENDENT AUDITORS' REPORT

November 11, 2008

Downtown Bay City Management Board
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Downtown Bay City Management Board*** (the "Board"), a component unit of the City of Bay City, as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the ***Downtown Bay City Management Board*** as of June 30, 2008, and the respective changes in its financial position and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The ***Downtown Bay City Management Board*** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

DOWNTOWN BAY CITY MANAGEMENT BOARD

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2008

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$106,929	\$ -	\$106,929
Accounts receivable - reimbursements	695	-	695
Accounts receivable - DDA administrative reimbursement	-	-	-
Due from City of Bay City	25,705	-	25,705
Prepaid items	6,355	-	6,355
Capital assets, net of accumulated depreciation	<u>-</u>	<u>433</u>	<u>433</u>
Total assets	<u><u>\$139,684</u></u>	<u><u>433</u></u>	<u><u>140,117</u></u>
Liabilities			
Accounts payable	\$ 3,244	\$ -	\$ 3,244
Accrued liabilities	3,015	-	3,015
Deferred / unearned revenue	<u>1,630</u>	<u>-</u>	<u>1,630</u>
Total liabilities	<u><u>7,889</u></u>	<u><u>-</u></u>	<u><u>7,889</u></u>
Fund Balance / Net Assets			
Fund Balance:			
Reserved for prepaid items	6,355	(6,355)	-
Unreserved	<u>125,440</u>	<u>(125,440)</u>	<u>-</u>
Total fund balance	<u><u>131,795</u></u>	<u><u>(131,795)</u></u>	<u><u>-</u></u>
Total liabilities and fund balance	<u><u>\$139,684</u></u>		
Net Assets:			
Invested in capital assets		433	433
Unrestricted		<u>131,795</u>	<u>131,795</u>
Total net assets		<u><u>\$132,228</u></u>	<u><u>\$132,228</u></u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN BAY CITY MANAGEMENT BOARD

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures / expenses			
Economic development	<u>\$ 253,877</u>	<u>\$ 1,225</u>	<u>\$ 255,102</u>
Program revenues			
Charges for services	49,186	-	49,186
Operating grants and contributions	<u>89,022</u>	<u>-</u>	<u>89,022</u>
Total program revenues	<u>138,208</u>	<u>-</u>	<u>138,208</u>
Net program expense			<u>116,894</u>
General revenues			
Property taxes	113,130	-	113,130
Interest earnings	<u>1,667</u>	<u>-</u>	<u>1,667</u>
Total general revenues	<u>114,797</u>	<u>-</u>	<u>114,797</u>
Revenues over (under) expenditures	(872)	872	-
Change in net assets	-	(2,097)	(2,097)
Fund balance / net assets			
Beginning of the year	<u>132,667</u>	<u>1,658</u>	<u>134,325</u>
End of the year	<u><u>\$ 131,795</u></u>	<u><u>\$ (439)</u></u>	<u><u>\$ 132,228</u></u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN BAY CITY MANAGEMENT BOARD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 123,815	\$ 123,815	\$ 113,130	\$ (10,685)
Contributions	90,000	90,000	89,022	(978)
Interest income	1,800	1,800	1,667	(133)
Programming and other revenue	54,500	54,500	49,186	(5,314)
Total revenues	270,115	270,115	253,005	(17,110)
Expenditures				
Administrative:				
Salaries - executive director	49,000	49,000	49,000	-
Salaries - executive assistant	26,000	26,000	26,000	-
Salaries - clerical assistant	10,000	10,000	9,816	(184)
Payroll taxes	7,500	7,500	7,937	437
Dues and subscriptions	2,000	2,000	1,504	(496)
Professional service	6,500	6,500	5,675	(825)
Meetings	1,000	1,000	2,453	1,453
Mileage reimbursement	750	750	868	118
Insurance	3,750	3,750	2,974	(776)
Office expense	6,000	6,000	3,608	(2,392)
Postage	2,500	2,500	2,541	41
Telephone	3,500	3,500	3,560	60
Other sundry	3,200	3,200	1,255	(1,945)
Rent	9,970	9,970	9,250	(720)
Repairs and maintenance	1,000	1,000	2,531	1,531
Capital outlay	1,500	1,500	1,659	159
Programming:				
Maintenance (lighting)	6,100	6,100	8,897	2,797
Maintenance (Do-All)	18,000	18,000	18,088	88
Beautification grant	845	845	1,259	414
Promotions and activities	110,000	110,000	94,717	(15,283)
Internet - website support	1,000	1,000	285	(715)
Total expenditures	270,115	270,115	253,877	(16,238)
Net change in fund balance	-	-	(872)	(872)
Fund balance, beginning of year	132,667	132,667	132,667	-
Fund balance, end of year	<u>\$ 132,667</u>	<u>\$ 132,667</u>	<u>\$ 131,795</u>	<u>\$ (872)</u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE ENTITY

The Downtown Bay City Management Board (the “Board”) was created by the City of Bay City (the “City”) under the provisions of Michigan Public Act 260.

The Board’s mission is to create an improved environment for commerce, business, and residential development in and near downtown Bay City, while encouraging downtown to become a stronger mixed-use urban center offering a variety of retail, service, residential and recreational opportunities. The Board’s major revenue source is provided by a property tax millage. The Board provides the following types of services:

Business development – Works with lenders, City officials, and other organizations to attract new businesses to existing properties and encourage new development.

Activities management – Builds awareness of downtown as a mixed – use center through specially themed promotions, including retail sales, contests, fireworks, Christmas lighting and entertainment events.

Communications – Develops advertising that improves the image of downtown and leverages additional private advertising. Promotes special activities and sends newsletters and targeted correspondence to downtowners.

Parking and maintenance – Supplements regular City services in the management of downtown parking. Encourages the appropriate creation of new parking.

The Downtown Bay City Management Board is a discretely presented component unit of the City of Bay City. Accordingly, the accounting policies of the Board conform to generally accepted accounting principles as applicable to governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Modifications from the accrual basis are: (a) revenue is recognized when it becomes measurable and is available as a net current asset and (b) expenditures are recorded when the liability is incurred, except for principal and interest on long-term obligations which are recorded when due. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Basis of Presentation

As permitted by GASB Statement No. 34, the Board uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances.

The accounts of the Board are organized on the basis of a fund. All of the Board's assets, liabilities, revenues and expenditures relate to the general operation of the Board, and are therefore accounted for in the General Fund of the Board, which is a major governmental fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts presented as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Capital Assets

Capital assets, which include furniture and equipment, are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the Board are depreciated using the straight-line method over estimated useful lives of 5 to 7 years.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year. The Board approves total budget amounts by function; the Board currently has one function, which is General Government. Unused appropriations for all items lapse at the end of the year.

There were no unfavorable budget variances at the functional level.

Property Taxes

Property taxes are attached as an enforceable lien on property as of July 1 and are due without penalty on or before September 30. Real property taxes not collected as of March 1 are turned over to Bay County for collection, which advances the Board 100% for the delinquent taxes. Collection of delinquent personal property taxes is the responsibility of the Bay City Treasurer. Delinquent personal property taxes collected by the Bay City Treasurer are forwarded to the Board as they are received. Property taxes levied in July of each year are recognized as revenue in that year.

3. DEPOSITS

The Board's investment policies are governed by State Statutes. Statutes authorize the Board to invest in obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposits, commercial paper with prescribed ratings and repurchase agreements. The terms of investments and financial institutions used for investment purposes are determined based upon the Board's needs.

The entire balance of the Board's deposits at June 30, 2008, is included on the balance sheet under the "cash and cash equivalents" classification and consists of cash on deposit with financial institutions.

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Board's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Board's investment policy does not have specific limits in excess of state law on investment credit risk. The Board has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board does not have a policy for deposit custodial credit risk. As of year-end, \$9,703 of the Board's bank balance of \$109,703 was exposed to credit risk because it was uninsured and uncollateralized.

The Board's investments are in accordance with statutory authority.

4. LEASE

The Board leases office space from Commerce One on a month-to-month basis. Total rent expense for the year ended June 30, 2008, was \$9,250.

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 11,607	\$ -	\$ -	\$ 11,607
Less accumulated depreciation for:				
Furniture and equipment	<u>(9,949)</u>	<u>(1,225)</u>	<u>-</u>	<u>(11,174)</u>
Governmental activities capital assets, net	<u>\$ 1,658</u>	<u>\$ (1,225)</u>	<u>\$ -</u>	<u>\$ 433</u>

6. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The Board carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the past three years.

7. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2005, the Board moved its savings and checking accounts to Chemical Bank, based on the results of an objective proposal process that identified Chemical Bank as the preferred service provider. One of the Board's members is employed at Chemical Bank.

Financial transactions occur between the Board and various businesses in the downtown Bay City area that result from various activities to promote the downtown area. Several of the Board's members are owners or employees of the businesses in the downtown Bay City area.

DOWNTOWN BAY CITY MANAGEMENT BOARD

NOTES TO FINANCIAL STATEMENTS

8. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental fund balance sheet and the government-wide statement of net assets, which reconciles fund balance to net assets:

Fund balance	\$ 131,795
Adjustments:	
Capital assets that are purchased to be used in governmental activities are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets (net of accumulated depreciation) among assets of the Board as a whole.	<u>433</u>
Net assets	<u>\$ 132,228</u>

Following is an explanation of the adjustments between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balance	\$ (872)
Adjustments:	
Depreciation expense is reported in the statement of activities, but because depreciation does not require the use of current financial resources, it is not reported as an expenditure in the governmental fund.	<u>(1,225)</u>
Change in net assets	<u>\$ (2,097)</u>

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

November 11, 2008

To the Board of Directors of the
Bay City Downtown Management Board

We have audited the financial statements of the governmental activities and the major fund of the ***Bay City Downtown Management Board*** (the “Board”) for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 26, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

To the Board of Directors of the
Bay City Downtown Management Board
November 11, 2008
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Bay City Downtown Management Board* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

Bay City Downtown Management Board

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Bay City Downtown Management Board (the "Board") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the significant deficiencies, as described below, constitute material weaknesses.

Bay City Downtown Management Board

Comments and Recommendations

For the Year Ended June 30, 2008

Material Weaknesses

1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (“GAAP”). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Board’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government’s *internal* controls.

Cause: This condition was caused by the Board’s decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Board lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Board has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in its best interests to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Bay City Downtown Management Board

Comments and Recommendations

For the Year Ended June 30, 2008

2) Segregation of Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting safeguarding the Board's assets.
Condition:	<p>During the course of our audit, we noted several instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:</p> <ol style="list-style-type: none">(1) The physical receipting of cash and checks is done by the individual who also prepares and makes bank deposits.(2) The individual who prepares checks to pay vendors and employees also has access to the general ledger.
Cause:	As is the case with many organizations of similar size, the Board lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
Effect:	The Board's current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
Recommendation:	While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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